



MCI Communications
Corporation
1801 Pennsylvania Ave., NW
Washington, DC 20006
202 887 2048

Leonard S. Sawicki
Senior Manager
Regulatory Affairs

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November 2, 1994

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street NW
Washington, D.C. 20554

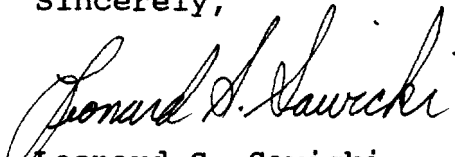
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: CC Docket 94-1; Price Cap Performance Review for
Local Exchange Carriers

Dear Mr. Caton:

Attached to this letter are copies of a recent study, Patterns of
Investment by the Regional Bell Holding Companies, by Economics and
Technology (ETI). This document is reproduced with the permission
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Sincerely,


Leonard S. Sawicki

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ETI Research Report

**PATTERNS OF INVESTMENT
BY THE REGIONAL BELL HOLDING COMPANIES**

An Examination of the
Sources of Financing and the
Relative Performance of
the Bell Operating Company and
the non-BOC RBHC businesses

May, 1993
(revised on 1/13/94)



ECONOMICS AND TECHNOLOGY, INC.

ONE WASHINGTON MALL • BOSTON, MASSACHUSETTS 02108

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PATTERNS OF INVESTMENT BY THE REGIONAL BELL HOLDING COMPANIES

Introduction

The break-up of AT&T in 1984 created seven new corporations which, collectively, assumed responsibility for the provision of the local telephone services of the former Bell System. These so-called "Regional Bell Holding Companies" ("RBHCs") or "Baby Bells" adopted a common corporate structure in which the (former Bell System) operating telephone utilities ("Bell Operating Companies" or "BOCs") generally retained their identity and role as regulated local exchange carriers ("LECs"), while new affiliates were created, usually as subsidiaries of the *parent* RBHC, to pursue non-regulated, non-utility ventures. In principle, these affiliates were supposed to be "fully separated" from the regulated BOC entity, such that ratepayers of monopoly local telephone services would not be forced to "cross-subsidize" these new and generally risky business initiatives. The actual extent of such "separation" within the RBHC structure has, and continues to be, a subject of considerable debate.

Despite the nominal "separation" of regulated and non-regulated subsidiaries, the parent RBHC and its Board of Directors retain responsibility for the overall management of the corporation. Among other things, that responsibility embraces the allocation of financial, management, and other resources among the various entities.

Almost from their birth in 1984, the RBHCs have been engaged in the pursuit of a broad range of business activities outside the scope of local telephone service operations. While early forays into real estate, retail computer sales, out-of-area yellow pages, among others, were not particularly successful, investments in cellular and in several foreign ventures have produced more positive results. Recently, there has been a flurry of RBHC activity directed at large-scale investment in, and corporate consolidation with, cable television companies, and it appears likely that in the future the regional Bells will be devoting even more of their corporate attention and resources away from the core local telephone business. In this report, we examine the manner in which the RBHCs have been and are financing these diversification efforts. As we show, in many important respects the specific method and pattern of financing seems to violate the spirit, and perhaps in some cases even the letter, of the proscription against cross-subsidization.

Funding and performance of non-BOC activities

The regulated Bell Operating Companies represent the dominant share of each RBHC's revenues, assets, *and earnings*. Thus, while technically "separated" from the regulated BOCs, the other RBHC ventures have in fact derived the overwhelming majority of their capital from funds generated at the BOC level. Indeed, an examination of the depreciation, earnings, dividend payments, and reinvestment practices of the Regional Bells and their various regulated and non-regulated subsidiaries reveals a general pattern of *diversion* of capital *away from the regulated entities* and into the non-regulated businesses.

This report provides historical data and highlights relationships that trace the sources of investment funds and the specific investment activities of the regional companies and their respective BOC subsidiaries. While the individual practices are not identical, certain clear patterns common to all seven of the Regional Bell Holding Companies are readily apparent:

- All seven regional companies have been in recent years reinvesting far less of their BOC earnings back into the BOC asset base than they did immediately following the divestiture; several RBHCs (Pacific Telesis, NYNEX and Southwestern Bell Corporation) are actually *disinvesting* in their BOCs, in that the annual depreciation charges since the late 1980s have regularly *exceeded* the total plant acquired by the BOC in a given year. In other cases (e.g., Ameritech), such disinvestment is occurring in some (but not all) of the individual BOCs (Ohio Bell, Indiana Bell, and Wisconsin Bell), while net investment continues in the others (Illinois Bell and Michigan Bell).
- For most of the decade since the divestiture, the BOCs have pursued regulatory strategies designed to achieve higher depreciation rates and accelerated depreciation practices, on the basis that more rapid investment recovery was essential for the financing of new "modern" LEC infrastructure. However, our analysis now reveals that the cash flow generated by the increased depreciation charges that have been allowed by regulators has not been used to acquire new BOC plant, but has instead been handed over to the parent for its use in investing in non-BOC businesses.
- The Bell Atlantic BOCs are the only operating companies that are retaining consequential portions of their earnings at the BOC level for reinvestment in the BOC networks. The BOC subsidiaries of the other six RBHCs are transferring nearly all of their equity earnings to the parent in the form of a dividend payment. In recent years, some BOCs (e.g., Southwestern Bell, Pacific Bell, New York Telephone) have paid dividends to their parent that have actually exceeded the BOC's earnings. Consequently, the BOCs do not retain much — or in some cases any — of their earnings for reinvestment in their LEC infrastructure, and there is no evidence of an infusion of funds for such purposes coming from the parent.

- The parent RBHCs do, however, retain a substantial portion of the BOC dividend payment they receive. Generally, only about two-thirds to three-quarters of the BOC dividend is distributed to the parent RBHC's public shareholders; the balance of the undistributed BOC dividend is used to fund investments in *non-BOC* regional holding company activities. When viewed on a consolidated basis, virtually all of each RBHC's retained earnings come from earnings *at the BOC level*, yet virtually none of those retained earnings are being reinvested *in the BOCs*.
- Despite the persistent, decade-long infusion of RBHC capital into non-BOC enterprises, in almost every case the *non-BOC* portion of the RBHC's business has been and continues to underperform — and by a large amount — the same parent's BOCs. With the exception of Southwestern Bell (whose non-BOC businesses are *currently* earning at about the same level as that company's BOC), the other RBHC non-BOC businesses, taken collectively within each RBHC, are operating either at a net loss or are generating no more than a minuscule positive return.

Policy implications

While our findings and conclusions should be of obvious interest to the financial community, they present serious and fundamental regulatory policy implications as well. The RBHCs have long argued that by creating fully separated subsidiaries and affiliates they can effectively insulate their regulated BOC entities — and hence BOC customers — from the costs and risks of non-BOC ventures. But mere *accounting* separation may not be sufficient if the non-BOC activities of the parent have the *effect* of increasing the *accounting* costs booked to the regulated entities. In the instant situation, the RBHCs are funding most, and in some cases *all*, of their non-BOC investments from cash flow and earnings generated at the BOC level. Depreciation rates have been increased, but reinvestment in BOC networks is not keeping pace. Moreover, the high volatility and low (often negative) earnings being derived from non-BOC ventures is likely placing upward pressure on BOC costs of capital which, like high depreciation rates, translate directly into higher prices for monopoly BOC services.

Ratepayers of these BOC monopoly services are thus cross-subsidizing non-regulated RBHC businesses. Increases in depreciation rates have not been used for the purpose of funding new public network infrastructure. Increased earnings produced by "incentive regulation" plans, along with the cash flow generated by the higher depreciation charges, have flowed into risky and often unprofitable non-BOC ventures.

In total, the RBHCs have invested some \$15.7-billion in *non-BOC* businesses since these companies' birth in 1984, yet cumulative earnings resulting from these ventures has amounted to only \$1-billion. The only RBHCs with acceptable earnings from their non-BOC ventures are Southwestern Bell Corporation and Ameritech. Southwestern Bell Corporation's earnings

Patterns of RBHC Investment

are attributable primarily to its early (and hence relatively low-cost) investment in several major market cellular franchises and in Teléfonos de México (Telmex) which, not coincidentally, is itself a monopoly local exchange carrier. *There can be little question but that these non-BOC activities of the Regional Bells could not have stood on their own without the financial backing of the regulated monopolies.* It is difficult to imagine the willingness of the financial markets to capitalize and support an investment base of this size (\$15-billion) for nearly a decade, given these ventures' financial performance. That these ventures have been financed at lower cost than would have been required on a "stand alone" basis is beyond dispute; that the additional risks associated with these activities have increased the composite RBHC and BOC costs of capital is the logical result.

There is thus little doubt that residential and business customers of monopoly BOC services have been forced to pay excessive rates in order to recover the increased depreciation charges and to generate sufficiently high levels of earnings for the BOCs so as to provide the financial basis for non-regulated RBHC businesses. Regulators and others responsibility for framing national and state telecommunications policy will thus need to consider each and all of the following key questions:

- To the extent that non-BOC RBHC activities may in the future produce positive returns, to what extent should BOC ratepayers share in the gains from the investments that were largely (or entirely) funded from excessive BOC depreciation rates and capital costs?
- Will perpetuation of the present RBHC/BOC corporate structure and relationships provide the most efficient arrangement to assure continued investment in the public network and provision of high-quality affordable telecommunications services, or should additional divestiture of the LEC entities from the parents be considered?
- If divestiture of LECs is to be pursued, how should the divested companies and their ratepayers retain an interest in future gains from the non-BOC activities of the parent that they had helped to finance?
- If the present RBHC/BOC structure is to be retained, what additional safeguards should be implemented so as to foreclose further diversion of BOC resources?

BOCs in a number of state jurisdictions are seeking sweeping changes in the structure of regulation which would substantially enhance their ability both to increase depreciation charges and to generate additional revenues through successive automatic price increases for basic monopoly services. It is hoped that the data and analysis provided in this report will help to place the BOCs' regulatory agendas in their proper context, and to underscore the need for a more critical evaluation of the basis and requirement for the kinds of regulatory reforms that are being proposed.

Patterns of RBHC Investment

The information contained in the following tables and charts was compiled from public reports of the regional holding companies and their BOC subsidiaries. These consisted principally of the BOC "Form M" annual reports filed with the Federal Communications Commission, the BOC and RBHC "10-K" annual reports filed with the Securities and Exchange Commission, and published corporate annual reports of the RBHCs. In certain instances, this information was supplemented or corroborated by information derived from reports filed by the BOCs with their respective state regulatory authorities.

This study was prepared under the direction and supervision of Lee L. Selwyn, President of Economics and Technology, Inc. Research and analysis were conducted by Sonia N. Jorge and Jenny H. Yan.

Note: Corrections are in italics.

SOURCES OF RBHC EARNINGS (\$000s)
1984-92

RBHC	TOTAL		BOC		NON-BOC	
	Net Income	ROE	Net Income	ROE	Net Income	ROE
Ameritech	10,635,700	15.6%	10,430,700	16.3%	205,000	8.1%
Bell Atlantic	10,574,700	13.6%	11,307,205	16.0%	(732,505)	-10.5%
BellSouth	14,055,800	13.2%	13,546,700	14.4%	509,100	4.3%
NYNEX	9,557,300	11.8%	10,170,000	13.4%	(612,700)	-22.9%
Pacific Telesis	9,336,400	13.6%	9,484,200	15.2%	(147,800)	-1.7%
Southwestern Bell	9,580,900	12.9%	8,363,400	13.3%	1,217,500	11.3%
US West	9,157,500	13.0%	8,546,600	14.2%	610,900	3.4%
Totals	72,898,300		71,848,805		1,049,495	

SOURCES OF RBHC EARNINGS (\$000s)
1987-92

RBHC	TOTAL		BOC		NON-BOC	
	Net Income	ROE	Net Income	ROE	Net Income	ROE
Ameritech	7,429,000	16.2%	7,170,800	16.7%	258,200	14.6%
Bell Atlantic	7,341,600	13.7%	7,962,483	16.6%	(620,883)	-11.7%
BellSouth	9,792,100	12.8%	9,408,300	14.3%	383,800	3.8%
NYNEX	6,260,300	11.2%	6,845,800	13.0%	(585,500)	-33.7%
Pacific Telesis	6,499,400	13.8%	6,575,000	15.5%	(75,600)	-0.4%
Southwestern Bell	6,678,900	12.9%	5,748,600	13.5%	930,300	9.3%
US West	6,419,600	12.9%	5,660,900	13.6%	758,700	8.8%
Totals	50,420,900		49,371,883		1,049,017	

SOURCES OF RBHC EARNINGS (\$000s)
1990-92

RBHC	TOTAL		BOC		NON-BOC	
	Net Income	ROE	Net Income	ROE	Net Income	ROE
Ameritech	3,765,300	16.6%	3,625,000	17.1%	140,300	18.8%
Bell Atlantic	3,801,000	14.3%	4,270,334	18.1%	(469,334)	-16.0%
BellSouth	4,720,700	11.9%	4,596,100	13.5%	124,600	2.4%
NYNEX	2,861,200	10.1%	3,362,700	12.4%	(501,500)	-63.9%
Pacific Telesis	3,119,400	13.4%	3,113,000	14.4%	6,400	1.7%
Southwestern Bell	3,478,900	13.0%	2,788,500	13.1%	690,400	12.2%
US West	3,171,700	11.8%	2,722,600	12.7%	449,100	8.1%
Totals	24,918,200		24,478,234		439,966	

Note: Corrections are in italics.

RBHC INVESTMENTS IN BOC PLANT (\$000s)
1984-92

RBHC	New Plant Acquired	Depreciation Charges	Net Investment (Disinvestment)
Ameritech	16,485,455	15,009,593	1,475,863
Bell Atlantic	20,262,845	16,407,126	3,855,719
BellSouth	24,611,788	21,565,107	3,046,681
NYNEX	18,946,836	17,295,337	1,651,499
Pacific Telesis	15,176,161	14,565,209	610,952
Southwestern Bell	14,239,587	14,055,713	183,873
US West	16,388,979	13,929,444	2,459,534
Totals	126,111,652	112,827,530	13,284,122

RBHC INVESTMENTS IN BOC PLANT (\$000s)
1987-92

RBHC	New Plant Acquired	Depreciation Charges	Net Investment (Disinvestment)
Ameritech	10,844,214	10,409,106	435,108
Bell Atlantic	14,150,194	11,935,256	2,214,938
BellSouth	17,103,216	16,206,017	897,199
NYNEX	13,026,621	13,050,793	(24,172)
Pacific Telesis	9,410,801	10,587,246	(1,176,445)
Southwestern Bell	8,421,983	10,150,688	(1,728,704)
US West	10,932,054	10,118,211	813,843
Totals	83,889,084	82,457,316	1,431,768

RBHC INVESTMENTS IN BOC PLANT (\$000s)
1990-92

RBHC	New Plant Acquired	Depreciation Charges	Net Investment (Disinvestment)
Ameritech	5,353,772	5,205,004	148,768
Bell Atlantic	6,938,350	6,143,142	795,208
BellSouth	8,321,800	8,417,200	(95,400)
NYNEX	6,205,978	6,550,838	(344,860)
Pacific Telesis	5,004,647	5,226,324	(221,677)
Southwestern Bell	4,477,762	4,925,978	(448,216)
US West	6,015,019	5,151,942	863,077
Totals	42,317,327	41,620,428	696,899

Note: Corrections are in italics

RBHC INVESTMENTS IN NON-BOC BUSINESSES (\$000s)
1984-92

RBHC	Dividends From BOCs	Dividends Paid To Public Shareholders	BOC Dividends Retained By RBHC	Disinvestment in BOC Plant	Unused Dividends and Disinvestment from prior years	RBHC Investment in Non-BOC Business	% of Non-BOC Investment Financed by BOC Dividends and Disinvestment
Ameritech	9,120,772	6,800,500	2,320,272	--	--	1,587,545	100.0%
Bell Atlantic	8,994,274	7,374,680	1,619,594	--	--	2,066,055	78.4%
BellSouth	11,440,484	9,606,005	1,834,478	--	--	1,660,612	100.0%
NYNEX	8,700,411	6,933,375	1,767,036	--	--	2,633,664	67.1%
Pacific Telesis	9,398,116	6,554,040	2,842,076	--	--	2,970,839	95.7%
Southwestern Bell	8,364,916	6,041,700	2,323,216	--	--	2,476,313	93.8%
US West	8,666,668	5,622,390	3,044,278	--	--	2,389,121	100.0%
Totals	64,663,642	48,932,690	15,750,951	0		15,784,148	90.7%

RBHC INVESTMENTS IN NON-BOC BUSINESSES (\$000s)
1987-92

RBHC	Dividends From BOCs	Dividends Paid To Public Shareholders	BOC Dividends Retained By RBHC	Disinvestment in BOC Plant	Unused Dividends and Disinvestment from prior years	RBHC Investment in Non-BOC Business	% of Non-BOC Investment Financed by BOC Dividends and Disinvestment
Ameritech	6,395,103	4,878,600	1,516,503	--	630,810	1,414,586	100.0%
Bell Atlantic	6,451,227	5,360,800	1,090,427	--	--	1,547,006	70.5%
BellSouth	8,297,634	7,073,485	1,224,149	--	418,102	1,468,384	100.0%
NYNEX	6,043,843	5,010,675	1,033,168	24,172	--	2,171,079	48.7%
Pacific Telesis	6,621,483	4,774,340	2,047,143	1,178,445	--	2,188,199	100.0%
Southwestern Bell	5,750,217	4,248,400	1,501,817	1,728,704	--	2,429,517	100.0%
US West	5,780,267	3,986,600	1,791,667	--	607,836	1,744,346	100.0%
Totals	45,538,775	35,334,901	10,204,875	2,929,321		12,963,116	88.5%

RBHC INVESTMENTS IN NON-BOC BUSINESSES (\$000s)
1990-92

RBHC	Dividends From BOCs	Dividends Paid To Public Shareholders	BOC Dividends Retained By RBHC	Disinvestment in BOC Plant	Unused Dividends and Disinvestment from prior years	RBHC Investment in Non-BOC Business	% of Non-BOC Investment Financed by BOC Dividends and Disinvestment
Ameritech	3,108,848	2,686,600	423,248	--	1,480,407	1,150,928	100.0%
Bell Atlantic	3,418,212	2,967,700	460,512	--	--	944,650	48.7%
BellSouth	4,388,988	3,748,786	617,183	95,400	581,084	1,024,400	100.0%
NYNEX	2,978,800	2,618,075	360,425	344,880	--	1,236,522	57.0%
Pacific Telesis	3,288,577	2,548,748	659,829	221,677	450,761	1,238,353	100.0%
Southwestern Bell	2,783,038	2,272,500	480,538	448,216	1,575,002	2,218,838	100.0%
US West	2,905,419	2,238,900	665,619	--	647,119	657,581	100.0%
Totals	22,750,564	19,073,209	3,677,355	1,110,154		6,472,073	86.5%



Patterns of RBHC Investment

AMERITECH CORPORATION

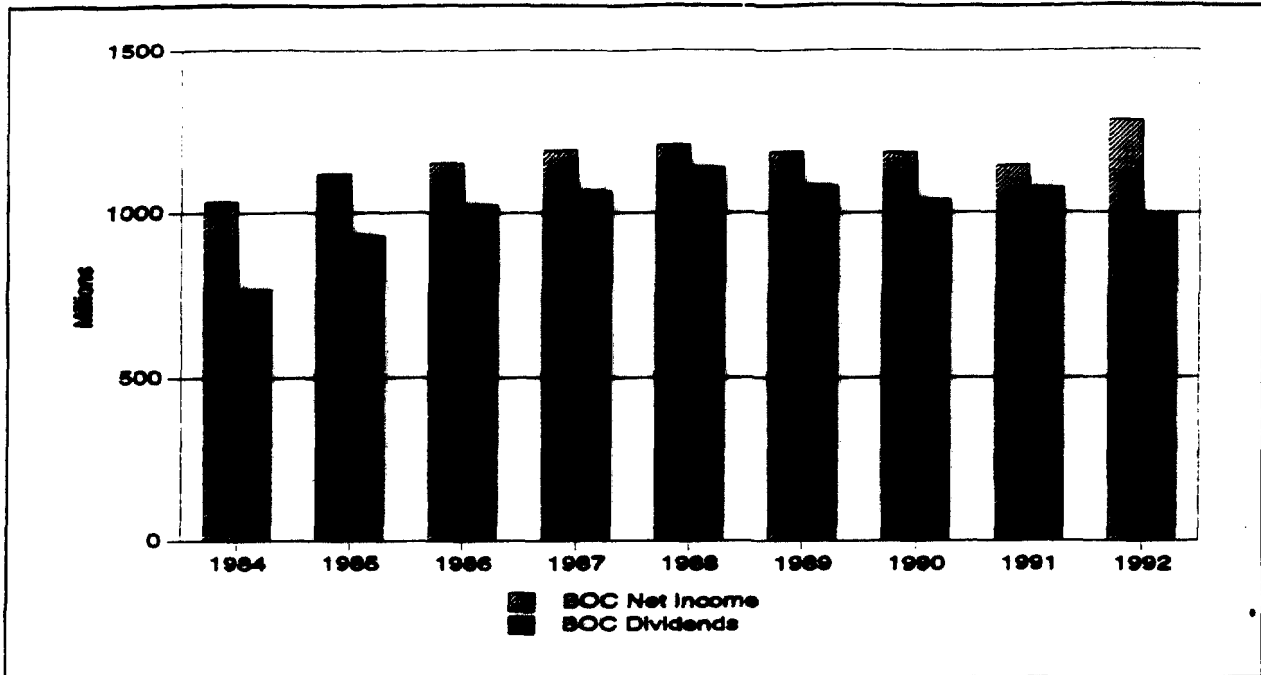
Note: Corrections are in italics.

SOURCES AND EFFECTIVENESS OF RBOC'S INVESTMENT POLICIES

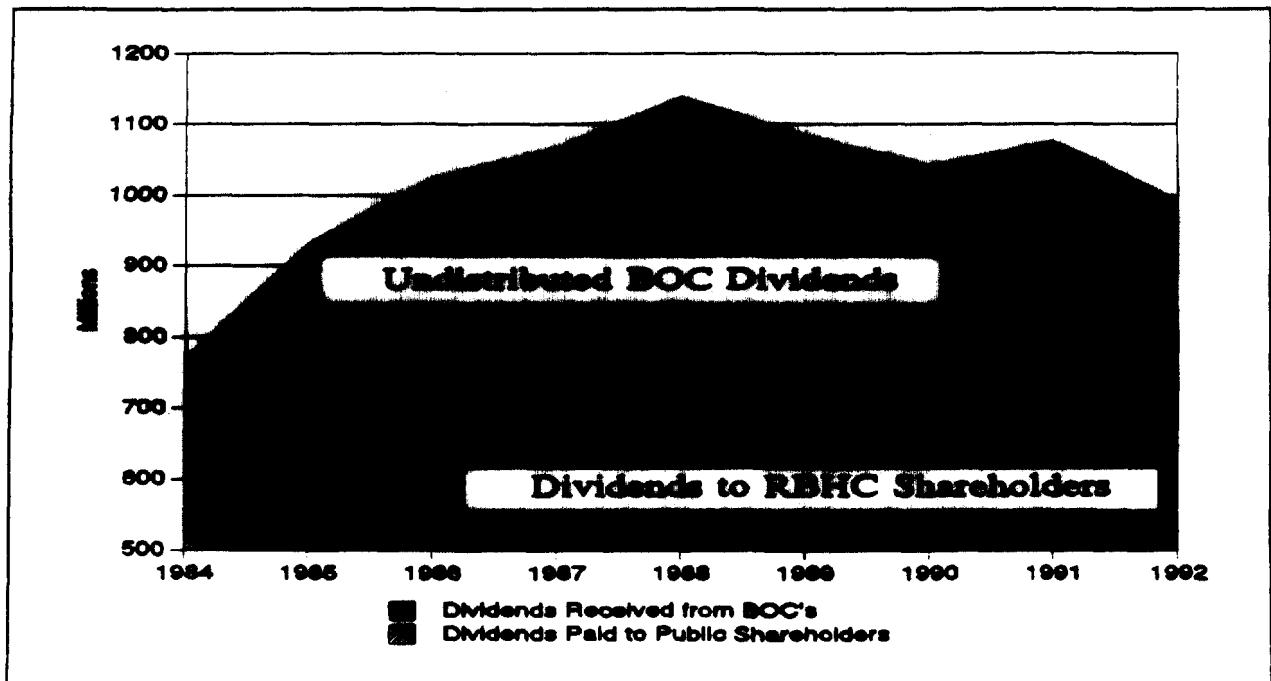
RBHC:		AMERITECH		
1	Time Period Covered:	1984-92	1987-92	1990-92
	Net Income	\$10,430,700	\$7,170,800	\$3,625,000
	Depreciation	\$15,009,593	\$10,409,106	\$5,205,004
2	Flow of Funds from BOCs	\$25,440,293	\$17,579,906	\$8,830,004
3	Amount reinvested in BOC network	\$16,485,455	\$10,844,214	\$5,353,772
4	BOC cash flow not invested	\$8,954,837	\$6,735,692	\$3,476,232
5	Reinvestment Rate	64.8%	61.7%	60.6%
6	Reinvestment of Net Income only	14.1%	6.1%	4.1%
7	BOC Dividend paid to Parent	\$9,120,772	\$6,395,103	\$3,108,849
8	Parent's Dividend paid to Public Shareholders	\$6,800,500	\$4,878,600	\$2,685,600
9	BOC Dividend Retained by Parent	\$2,320,272	\$1,516,503	\$423,249
	Percent retained by parent	25.4%	23.7%	13.6%
10	Parent's reported non BOC total investment	\$1,587,545	\$1,414,586	\$1,150,928
11	Parent's reinvestment of BOC dividend retained in non BOC ventures	68.4%	93.3%	271.9%
12	Parent's average annual ROE on non BOC activities	8.14%	14.64%	18.77%

Region: Ameritech

COMPARISON OF BOC EARNINGS WITH BOC DIVIDENDS PAID TO PARENT

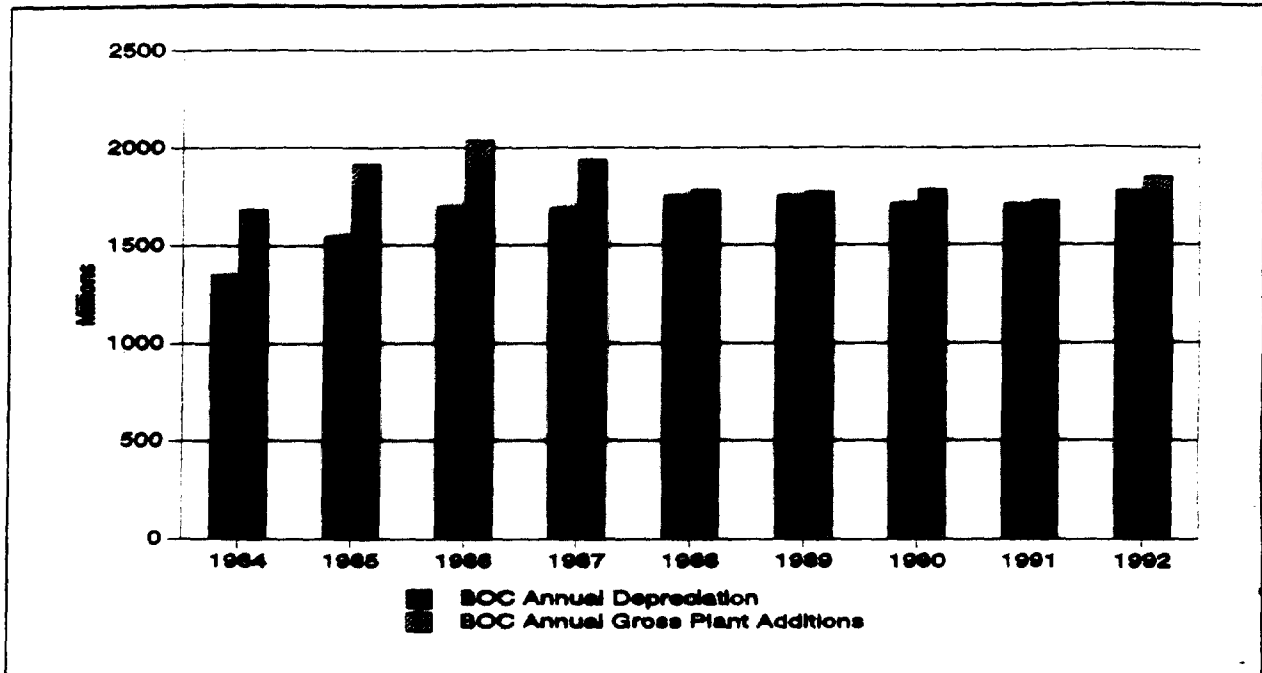


BOC DIVIDENDS PAID TO PARENT AND NOT DISTRIBUTED BY PARENT TO PUBLIC SHAREHOLDERS (ANNUALLY)

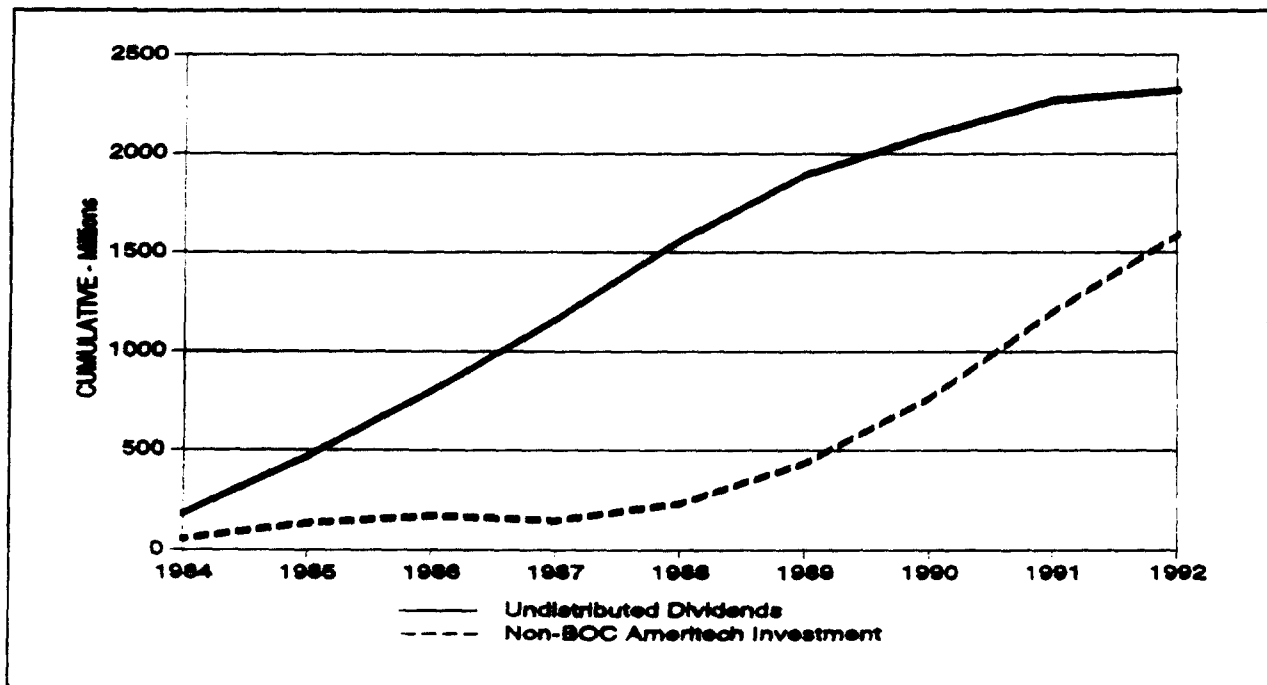


Region: Ameritech

BOC INVESTMENT (DISINVESTMENT) IN INFRASTRUCTURE
Comparison of annual depreciation charges
with amounts spent to acquire plant

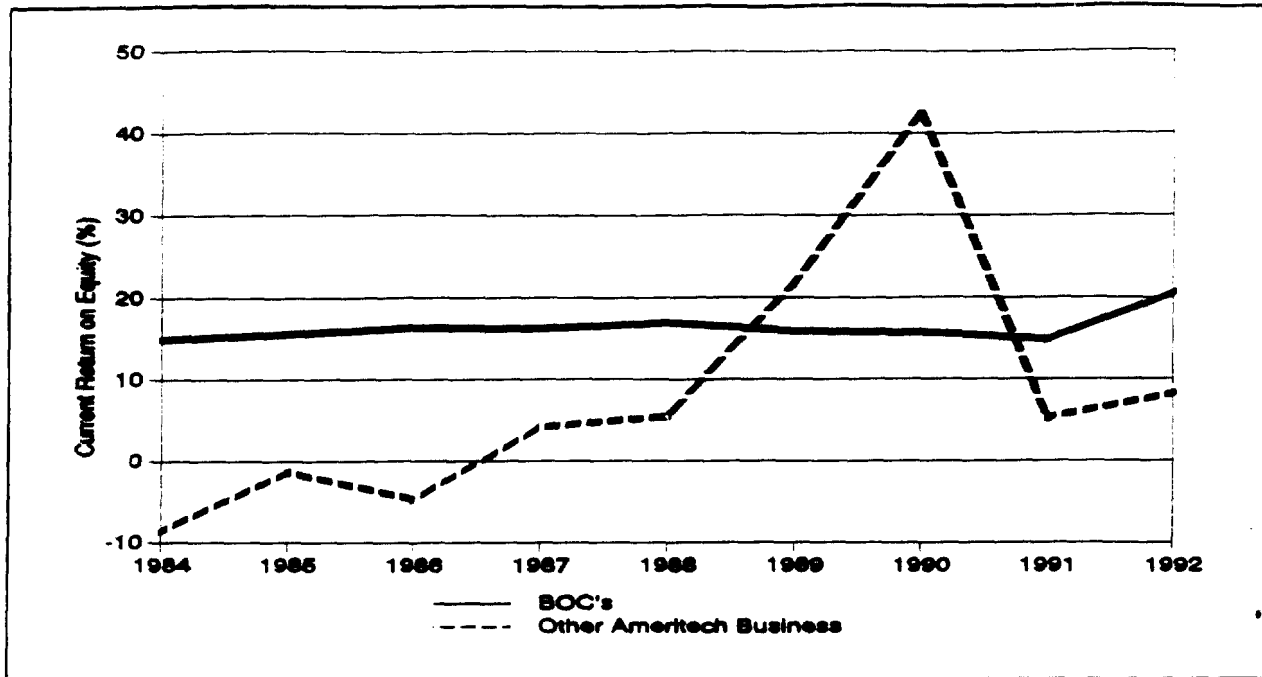


**RHBC USE OF UNDISTRIBUTED BOC DIVIDENDS
TO FINANCE NON REGULATED BUSINESSES**

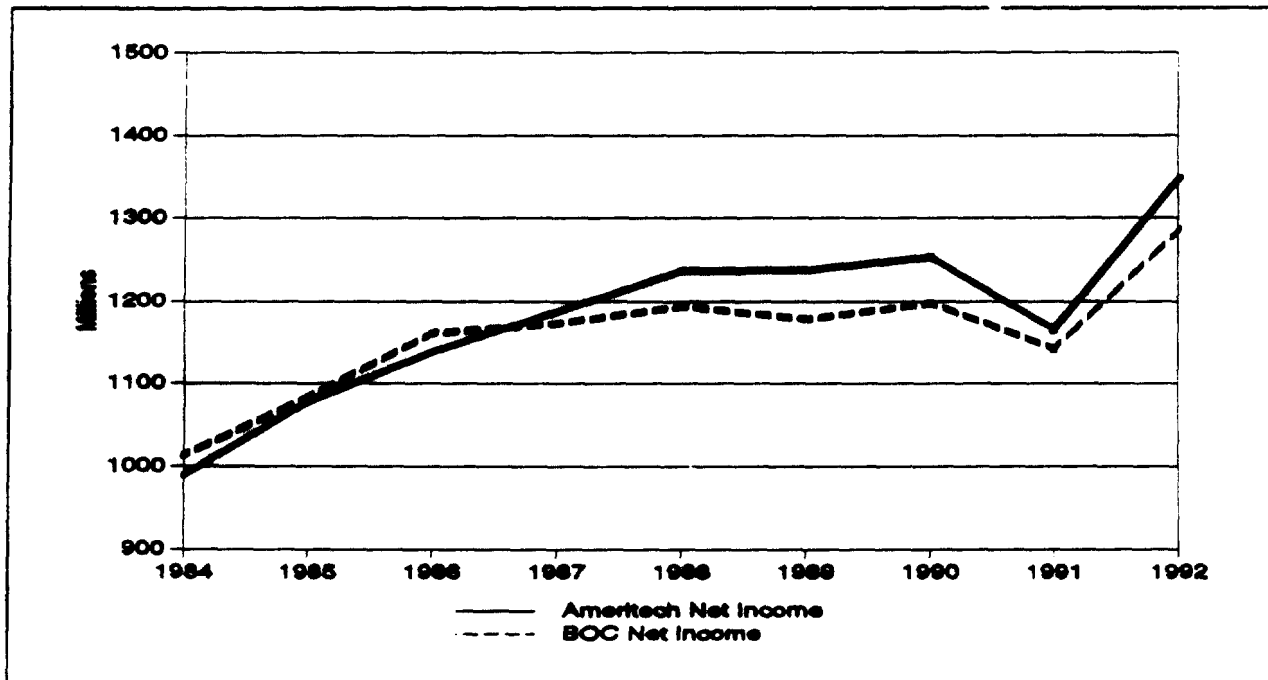


Region: Ameritech

PERFORMANCE OF RHBC'S BOC AND NON-BOC BUSINESSES Annual Return on Equity



BOC AND NON-BOC COMPONENTS OF RHBC NET INCOME



Region: Ameritech
BOC: Illinois Bell

ILLINOIS BELL INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Year	10K Rpt. Net Income	Form M Net Income	Dividends Paid to Parent	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	308,500	317,700	246,794	5,282,707	2,030,400	471,784	496,200
1985	298,200	304,062	287,883	5,154,643	2,045,200	581,500	670,200
1986	334,200	346,679	304,161	5,334,232	2,079,100	596,920	675,382
1987	332,500	344,853	314,554	5,409,041	2,101,000	485,534	643,456
1988	347,000	347,010	322,836	5,430,293	2,142,700	524,634	544,411
1989	344,100	344,131	274,849	5,510,595	2,190,400	549,743	580,634
1990	358,700	358,671	284,899	5,718,259	2,265,500	472,184	544,648
1991	352,200	352,145	324,520	5,875,210	2,289,500	497,175	545,778
1992	413,400	413,400	293,200	6,095,200	1,819,300	509,600	584,900
TOTALS	3,088,600	3,128,651	2,653,497			4,689,075	5,285,609

Source: Annual Reports Form M and 10K of Illinois Bell.

10K Report Net Income Number for 1992 does not include Cumulative Effect of Change in Accounting Principles.

1984 and 1985 Investment data and all 1992 Data are taken from the 10K Reports.

Year	Undistributed Income (Form M) (b-c)	Cash Flow (b+f)	% of Cash Flow Used for Plant Acqs (g/(b+f))	Net New Investment (Disinvestment) (g-f)	Annual ROE (a/e)
1984	70,905	789,484	62.85%	24,416	15.19%
1985	16,379	885,562	75.68%	88,700	14.58%
1986	42,517	943,598	71.58%	78,463	16.07%
1987	30,299	830,387	77.49%	157,921	15.83%
1988	24,174	871,644	62.46%	19,777	16.19%
1989	69,282	893,874	64.96%	30,891	15.71%
1990	73,772	830,855	65.55%	72,464	15.83%
1991	27,825	849,320	64.28%	48,603	15.38%
1992	120,200	923,000	63.37%	75,300	22.72%
TOTALS	475,154	7,817,726	67.61%	596,535	

Region: Ameritech
BOC: Indiana Bell

INDIANA BELL INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Year	10K Rpt. Net Income	Form M Net Income	Dividends Paid to Parent	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	109,300	115,927	85,580	1,899,206	741,300	117,074	197,300
1985	132,100	135,986	104,290	1,950,754	770,300	157,482	205,300
1986	149,200	157,929	114,000	1,985,881	806,700	191,606	233,608
1987	153,300	151,555	122,000	1,976,080	839,100	209,481	232,777
1988	150,900	150,875	116,400	1,984,763	859,600	191,393	192,708
1989	155,300	155,414	135,600	1,971,627	879,300	197,050	185,029
1990	154,700	154,472	138,400	1,985,889	899,900	200,978	200,383
1991	152,800	152,809	141,500	2,001,253	911,200	201,945	196,825
1992	163,200	163,200	109,400	2,035,200	804,800	214,000	201,200
TOTALS	1,320,800	1,338,168	1,067,150			1,681,008	1,845,129

Source: Annual Reports Form M and 10K of Indiana Bell.

10K Report Net Income Number for 1992 does not include Cumulative Effect of Change in Accounting Principles.

1984 and 1985 Investment data and all 1992 are taken from the 10K Reports.

Year	Undistributed Income (Form M) (b-c)	Cash Flow (b+f)	% of Cash Flow Used for Plant Acqs (g/(b+f))	Net New Investment (Disinvestment) (g-f)	Annual ROE (a/e)
1984	30,367	233,001	84.66%	80,226	14.74%
1985	31,696	293,468	89.98%	47,818	17.15%
1986	43,929	349,535	88.83%	42,002	18.50%
1987	29,535	361,036	84.47%	23,296	18.27%
1988	34,475	342,288	58.30%	1,314	17.55%
1989	19,814	352,464	52.50%	(12,021)	17.66%
1990	16,072	356,480	58.37%	(584)	17.19%
1991	11,309	354,754	55.48%	(5,120)	18.77%
1992	53,600	377,200	53.34%	(12,600)	20.28%
TOTALS	271,018	3,019,175	61.11%	164,122	

Region: Ameritech
BOC: Michigan Bell

MICHIGAN BELL INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Year	10K Rpt. Net Income	Form M Net Income	Dividends Paid to Parent	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	274,700	265,045	189,718	4,497,831	1,859,900	344,120	433,200
1985	302,000	317,046	255,820	4,672,498	1,909,400	365,511	473,800
1986	313,700	304,843	278,189	4,755,032	1,948,100	396,381	530,553
1987	307,900	326,085	289,969	4,885,485	1,969,300	420,556	522,805
1988	316,800	316,852	296,600	4,970,974	1,986,000	483,344	498,785
1989	317,800	317,823	309,014	5,004,370	1,995,300	491,250	497,984
1990	325,800	325,844	268,613	5,037,072	2,063,800	500,838	514,601
1991	290,500	290,497	265,284	5,129,671	2,088,800	473,926	538,887
1992	326,200	326,200	223,500	5,289,900	1,743,100	520,700	526,900
TOTALS	2,775,200	2,790,035	2,376,707			3,986,806	4,537,096

Source: Annual Reports Form M and 10K of Michigan Bell.

10K Report Net Income Number for 1992 does not include Cumulative Effect of Change in Accounting Principles.

1984 and 1985 Investment data and all 1992 are taken from the 10K Reports.

Year	Undistributed Income (Form M) (b-c)	Cash Flow (b+f)	% of Cash Flow Used for Plant Acqs (g/(b+f))	Net New Investment (Disinvestment) (g-f)	Annual ROE (a/e)
1984	75,327	609,165	71.11%	89,080	14.77%
1985	61,226	682,557	69.39%	108,089	15.82%
1986	26,654	701,205	75.66%	134,192	16.10%
1987	36,116	746,641	69.99%	102,050	15.83%
1988	20,252	800,196	62.33%	15,441	15.95%
1989	8,609	808,874	61.56%	6,714	15.92%
1990	57,231	826,682	62.25%	13,763	15.79%
1991	25,213	784,423	70.50%	64,961	13.91%
1992	102,700	846,900	62.22%	6,200	18.71%
TOTALS	413,328	6,786,641	66.85%	540,490	

Region: Ameritech
BOC: Ohio Bell

OHIO BELL INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Year	10K Rpt. Net Income	Form M Net Income	Dividends Paid to Parent	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	213,300	217,415	162,190	3,622,236	1,393,200	265,394	361,100
1985	229,500	243,123	169,293	3,740,414	1,456,100	278,816	361,500
1986	236,800	233,932	212,504	3,785,688	1,484,800	339,239	384,125
1987	246,600	236,445	221,161	3,733,138	1,512,600	391,892	373,532
1988	252,000	252,035	286,551	3,700,161	1,526,200	380,418	359,298
1989	251,200	251,205	237,579	3,714,295	1,539,800	346,094	346,541
1990	244,700	244,704	239,636	3,757,913	1,553,800	363,009	369,124
1991	237,900	237,875	240,468	3,731,547	1,551,200	360,103	275,744
1992	264,800	264,800	241,900	3,854,900	1,226,800	346,100	362,700
TOTALS	2,178,800	2,181,534	2,011,302			3,071,065	3,193,684

Source: Annual Reports Form M and 10K of Ohio Bell.

10K Report Net Income Number for 1992 does not include Cumulative Effect of Change in Accounting Principles.
1984 and 1985 Investment data and all 1992 Data are taken from the 10K Reports.

Year	Undistributed Income (Form M) (b-c)	Cash Flow (b+f)	% of Cash Flow Used for Plant Acqs (g/(b+f))	Net New Investment (Disinvestment) (g-f)	Annual ROE (a/e)
1984	55,225	482,809	74.79%	95,706	15.31%
1985	73,830	521,939	69.26%	82,684	15.76%
1986	21,428	573,171	67.02%	44,886	16.08%
1987	15,284	628,336	59.45%	(18,360)	16.30%
1988	(34,516)	632,454	56.81%	(21,121)	16.51%
1989	13,626	597,298	58.02%	448	16.31%
1990	5,088	607,713	60.74%	6,115	15.75%
1991	(2,613)	597,978	46.11%	(84,359)	15.34%
1992	22,900	610,900	59.37%	16,600	21.58%
TOTALS	170,232	5,252,599	60.80%	122,598	

Region: Ameritech
 BOC: Wisconsin Bell

WISCONSIN BELL INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Year	10K Rpt. Net Income	Form M Net Income	Dividends Paid to Parent	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	108,500	118,366	86,236	1,860,518	783,000	152,334	199,200
1985	122,300	118,401	114,516	1,901,957	791,900	167,069	204,600
1986	125,600	107,672	114,715	1,935,805	803,900	175,277	215,373
1987	132,300	130,436	118,039	1,933,236	819,400	186,069	165,674
1988	127,800	140,452	115,164	1,975,605	823,400	177,156	185,603
1989	110,500	117,092	125,938	1,960,868	808,400	169,488	161,425
1990	114,000	99,231	108,284	1,948,925	818,400	180,519	154,365
1991	108,800	110,140	104,025	1,989,414	823,200	177,528	164,517
1992	117,300	117,300	125,200	2,043,400	663,500	186,400	173,200
TOTALS	1,067,100	1,059,089	1,012,117			1,571,839	1,623,957

Source: Annual Reports Form M and 10K of Wisconsin Bell.

10K Report Net Income Number for 1992 does not include Cumulative Effect of Change in Accounting Principles.

1984 and 1985 Investment data and all 1992 Data taken from the 10K Reports.

Year	Undistributed Income (Form M) (b-c)	Cash Flow (b+f)	% of Cash Flow Used for Plant Acqs (g/(b+f))	Net New Investment (Disinvestment) (g-f)	Annual ROE (a/e)
1984	32,130	270,700	73.59%	46,866	13.86%
1985	3,885	285,470	71.67%	37,531	15.44%
1986	(7,043)	282,948	78.12%	40,087	15.62%
1987	12,386	316,504	52.34%	(20,385)	16.15%
1988	25,289	317,608	58.44%	8,447	15.52%
1989	(8,846)	286,580	56.33%	(8,063)	13.67%
1990	(9,053)	279,750	55.18%	(26,154)	13.93%
1991	6,115	287,668	57.19%	(13,011)	13.22%
1992	(7,900)	303,700	57.03%	(13,200)	17.68%
TOTALS	46,972	2,630,928	61.73%	52,116	

AMERITECH NON-BOC TOTAL INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

(RBHC-BOCS)

	(A)	(B)	(C)	(D)	(E)
Year	Net Income	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	(23,700)	472,802	279,700	(3,406)	59,600
1985	(6,400)	728,534	476,600	52,322	76,100
1986	(23,100)	962,982	486,400	(34,902)	37,259
1987	15,500	847,370	369,000	147,269	(24,343)
1988	42,900	1,101,204	505,600	454	87,796
1989	59,500	1,721,245	272,700	42,975	200,205
1990	55,900	3,268,042	131,200	107,273	332,879
1991	23,300	3,582,605	433,100	204,023	430,449
1992	61,100	3,499,100	734,700	254,500	387,600
TOTALS	205,000			770,507	1,587,545

Source: Ameritech Annual Reports; Telephone Company Form M and 10K reports for Illinois, Indiana, Michigan, Ohio and Wisconsin Bells.

Year	Cash Flow (a + d)	% of Cash Flow Used for Plant Acqs (e/(a + d))	Net New Investment (Disinvestment) (e - d)	Annual ROE (a/c)
1984	(27,106)	--	63,006	-8.47%
1985	45,922	165.72%	23,778	-1.34%
1986	(58,002)	--	72,161	-4.75%
1987	162,769	--	(171,613)	4.20%
1988	43,354	202.51%	87,342	8.48%
1989	102,475	--	157,230	21.82%
1990	163,173	--	225,606	42.61%
1991	227,323	--	226,426	5.38%
1992	315,600	--	133,100	8.32%
TOTALS	975,507		817,037	

Patterns of RBHC Investment

BELL ATLANTIC CORPORATION

TOTAL BELL ATLANTIC BOC INCOME, DIVIDEND AND INVESTMENT DATA (\$000s)

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Year	10K Rpt. Net Income	Form M Net Income	Dividends Paid to Parent	Total Assets	Total Equity	Annual Deprec.	Annual Investments
1984	1,003,413	1,022,965	650,527	17,778,327	7,243,763	1,187,291	1,811,406
1985	1,122,573	1,158,089	949,017	18,413,931	7,417,233	1,434,089	2,053,108
1986	1,218,738	1,141,568	943,503	19,016,768	7,892,198	1,850,489	2,248,137
1987	1,230,791	1,299,428	958,845	19,367,307	7,964,501	2,039,929	2,382,077
1988	1,271,649	1,349,843	985,838	20,149,131	8,252,350	1,844,398	2,468,127
1989	1,189,709	1,205,611	1,088,732	20,761,680	8,352,643	1,907,787	2,361,640
1990	1,401,658	1,354,137	1,068,331	21,174,411	8,685,446	2,039,831	2,391,169
1991	1,401,679	1,296,937	1,173,727	21,685,589	7,391,994	2,019,975	2,330,759
1992	1,466,997	1,466,997	1,176,154	22,013,061	7,682,704	2,083,336	2,216,422
TOTALS	11,307,205	11,295,574	8,994,274			16,407,126	20,262,845

Source: Annual Reports Form M and 10K of BOCs.

Year	Undistributed Income (Form M) (b-c)	Cash Flow (b+f)	% of Cash Flow Used for Plant Acqs (g/(b+f))	Net New Investment (Disinvestment) (g-f)	Annual ROE (a/e)
1984	372,438	2,210,256	81.95%	624,115	13.85%
1985	209,072	2,592,178	79.20%	619,019	15.13%
1986	198,065	2,992,057	75.14%	397,648	15.84%
1987	340,782	3,339,357	71.33%	342,148	15.45%
1988	384,205	3,194,241	77.27%	623,729	15.41%
1989	116,879	3,113,398	75.85%	453,853	14.24%
1990	285,808	3,393,988	70.45%	351,338	16.14%
1991	123,210	3,316,912	70.27%	310,784	18.96%
1992	290,843	3,550,333	62.43%	133,086	19.09%
TOTALS	2,301,300	27,702,700	73.14%	3,855,719	